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UNCLAS SECTION 01 OF 02 TEGUCIGALPA 000546

SIPDIS

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SUBJECT: HONDURAN ECON HIGHLIGHTS: DECEMBER 2002-JANUARY 2003

REFS: A) TEGUCIGALPA 225

- B) TEGUCIGALPA 10
- C) TEGUCIGALPA 494
- D) 2002 TEGUCIGALPA 3491
- E) 2002 TEGUCIGALPA 3416
- F) 2002 TEGUCIGALPA 3479

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Macroeconomic Results for 2002

[1](#)1. The GDP rose by 2 percent in 2002, which was lower than economic growth rates in previous years of 2.7 percent in 2001 and 4.8 percent in 2000. Per capita income fell by 0.6 percent during 2002, and the Consumer Price Index rose by 8 percent. The international reserves totaled USD 1.5 billion, and the gross family remittances totaled USD 700 million. The reference exchange rate was 16.92 lempiras per dollar, which showed a nominal depreciation of 6.3 percent for the year. Ref A contains preliminary economic statistics for 2002.

2003 Budget

[1](#)2. The 2003 budget adopted by Honduras' National Congress in December amounted to 60 billion lempiras (USD 3.5 billion). The Central Government was allocated 32 billion lempiras of the budget and divided in the following order: 50 percent for social expenditures, 13.6 percent for administration, 17.6 percent for public debt service, 12.7 percent for the economic agencies, and 6.2 percent for security and defense. Decentralized institutions will receive 27.9 billion lempiras. Taxes and other sources of domestic income will fund 26.7 billion lempiras of the central government budget. Foreign assistance will provide the remaining 6.3 billion lempiras of the budget funding (4.8 billion lempiras in loans and 1.5 billion lempiras in grants). The GOH is expected to submit amendments to the budget to Congress as part of its fiscal package (due by the end of February). Refs B and C report on Honduran plans for new fiscal measures.

GOH Housing Program Will Construct 30,000 Homes

[1](#)3. As part of its housing program, the GOH has set the goal to construct 30,000 houses, worth 150,000 lempiras in 2003. The houses will go to low-income families and will be paid off over a 20-year period.

GOH Eliminates the Commission for Privatization and Concessions

[1](#)4. The Commission for Privatization, which was created to assist the government in privatizing public enterprises, has been eliminated by the GOH. The Vice-Minister of Finance explained that the only successful operation of the Commission was assisting in the concession to Interairports of international airport operation. He reported that both the Commission for Privatization and the Commission for Modernization of the State had overlapping jurisdictions. The decision was made to eliminate the Commission for Privatization and allocate their task to the Commission for Modernization.

Growth in the Maquila Industry

15. The Honduran Association of Assemblers for Export, an organization that represents maquiladores, has reported a 4.5 percent growth for the sector over the last year. President Maduro announced in January 2003, the maquila industry surpassed its expected growth, with the creation of 8,000 jobs. The growth in jobs will come from new investment projects like cardboard, stockings, chemicals, and electrical cables, which total USD 100 million. In the second quarter of 2003, a Taiwanese firm is expected to construct a stockings factory.

Construction Sector Paralyzed Due to Higher Cost

16. The Honduran Chamber of Construction has reported that 80 percent of the sector is paralyzed due to higher prices of materials and lack of funds to buy land. The construction industry currently employs more than 120,000 individuals compared to the 600,000 it employed in the 1990's. There is optimism amongst leaders of the industry that new road and bridge projects will induce growth, as well as GOH sponsored housing projects.

Liquidation of Banco Capital

17. The National Banking and Insurance Commission (CNBS) liquidated Banco Capital and sold its deposit portfolio to Banco Ficohsa on December 20, 2002, at an auction conducted by the Deposit Insurance Fund. The GOH is still working to sell off the troubled loan portfolio of Banco Capital. The GOH approved a transfer of 517 million lempiras from Hondutel (the national telephone enterprise) to guarantee the Capital deposits (full report in Ref D).

Sears Opens Store in Tegucigalpa

18. Sears, Roebuck and Co. has invested close to USD 7 million for the construction of its new facilities in Tegucigalpa and the purchase of merchandise. The company also intends to increase the size of its operation in San Pedro Sula.

Competition Forces Taca to Cut Prices Up to 50 percent

19. Taca Airlines is now facing competition from Sol Air, a new startup airline that offers service to Miami, Dallas, Honduras and Nicaragua. The loss of Taca Airline's monopoly on the Central American airline market has forced the company to cut prices up to 50 percent in order to stay competitive. This has benefited travelers to and from Honduras, who once paid USD 700 and USD 800 and now pay USD 327 to USD 495. Sol Air intends to expand to other markets in Panama, Costa Rica, Guatemala, New Orleans, and the Caribbean.

Standard Fruit Company Announces New Investment for 2003

10. The GM of Standard Fruit Company in Honduras, Gerald Brunelle, announced planned new investment of USD 11.7 million. The money will be used in banana and pineapple production on the Honduran Atlantic Coast. The project will be completed within two years, and Standard Fruit will hire an additional 1,100 employees. Total exports from this investment will be USD 17-18 million for pineapples and bananas.

AES Contract Approved

11. On January 31, the National Congress approved a contract between the American-owned electrical company, AES of Honduras and Honduran state-owned ENEE. The contract will provide the incentive to build a USD 650 million power plant that would provide 200 megawatts of electricity to both Honduras and El Salvador. AES expects to make a profit of USD 500 million over 12 years with additional profits coming from energy sales in El Salvador. The contract will become effective upon signature by President Maduro and publication in the Gazeta. (See Refs E and F for background on contract).

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